



**A Report to the  
Audit Committee**

**Mayor**  
Megan Barry

**Chief Operating Officer**  
Richard Riebeling

**Audit Committee Members**  
Robert Brannon  
David Briley  
John Cooper  
Talia Lomax-O'dneal  
Bob Mendes  
Brack Reed

**Audit of the Comcast Cable  
Television Franchise Fee  
April 2013 through March 2014**

June 3, 2016

Metropolitan  
Nashville  
Office of  
Internal Audit

## EXECUTIVE SUMMARY

June 3, 2016



### Why We Did This Audit

The audit was initiated based on a request of the Cable Franchise Administrator within Metropolitan Nashville Information Technology Services.

### What We Recommend

Metropolitan Nashville Information Technology Services should request that Comcast include the revenue attributable to subscribers versus nonsubscribers and the total number of subscribers in Davidson County on the franchise fee statements.

# AUDIT OF THE COMCAST CABLE TELEVISION FRANCHISE FEE – APRIL 2013 THROUGH MARCH 2014

## BACKGROUND

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Comcast has a local franchise agreement with the Metropolitan Nashville Government. The current franchise agreement went into effect in May 2013. The franchise fee is calculated on five percent of gross cable television revenue within Nashville and Davidson County and is paid on a quarterly basis.

Through cable television franchise agreements, the Metropolitan Nashville Government receives the rights to provide four public, educational, and governmental (PEG) channels. The four channels include Metro Nashville Network, The Arts, Education, and Community Access.

The franchise agreement allows for an audit of the financial records of Comcast to determine if the franchise fees owed to the Metropolitan Nashville Government are correctly calculated.

## OBJECTIVE AND SCOPE

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The objective of this audit is to determine if the franchise fee payments received from Comcast are complete and accurate between April 2013 and March 2014.

The primary source of information to reach our conclusions is produced by Comcast's billing system. The reliability of the data provided by Comcast's billing system could not be determined. We determined that it would not be cost effective to perform audit testing of Comcast's billing system, and the franchise agreement does not require Comcast to provide the Metropolitan Government a Service Organizations Control Report. However, Deloitte & Touche did give the Comcast Corporation an unqualified opinion on the financial statements for the periods ending December 31, 2014, and December 31, 2013.

## WHAT WE FOUND

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A review of financial documentation found that franchise fees are correctly calculated and paid for cable television revenue. However, the exclusion of bad debt expense and the inclusion of whole house maintenance revenue resulted in an overpayment of \$42,197 from Comcast to the Metropolitan Nashville Government. Census data and market research showed the estimated number of subscribers compared to those provided by Comcast is within reason.

Also, required subscriber information is not included on the statements sent with the franchise fee payments.

## GOVERNANCE

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The CATV Special Committee consisting of seven members have the power and authority to review and evaluate any matter relating to the operation of any franchise, and the performance of any franchisee, that may be granted to Metropolitan Nashville. The day-to-day administration and enforcement of the franchise fee agreement between the Metropolitan Nashville Government and Comcast is administered by Metropolitan Nashville Information Technology Services.

## OBJECTIVES AND CONCLUSIONS

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1. *Are franchise fee payments received from Comcast complete and accurate?*

**Yes.** Comcast provided supporting documentation for the gross revenue that is reported on franchise fee statement between the second quarter of 2013 and the first quarter of 2014. Approximately 90 percent of the gross cable television revenue was directly reconciled with the revenue reports from Comcast's billing system. Additionally, a review of billing codes on billing statements showed that all video revenue is included in the Metropolitan Nashville franchise fee calculation.

The other 10 percent is derived from either allocated nonsubscriber revenue, such as advertising sales, or revenue that crosses multiple lines of business. As the franchise fee is only paid by gross revenues related to cable television, an allocation must be performed for revenue that crosses multiple lines of business. An example of this would be billing and collection fees. The allocation percentage for multi-service revenue is calculated by taking total cable television revenue for the period and dividing it by total revenue for the period. For nonsubscriber revenue, an allocation percentage is calculated by dividing the total number of video subscribers by the total number of subscribers across all lines of business.

Allocations were recalculated and produced immaterial variances in revenue. However, Comcast failed to allocate bad debt expense related to cable television revenue in May and June of 2013 and only allocated a portion of bad debt expense for the remaining months of the audit period. The exclusion of bad debt expense caused cable television revenue to be over-reported which represents a franchise fee **overpayment of \$21,427** to the Metropolitan Nashville Government.

Additionally, Comcast allocated a portion of whole house maintenance revenue to cable television revenue. Whole house maintenance refers to the maintenance of the inside wiring of the customer's home for monthly fee. The revenue should not be included in the franchise fee calculation per the current franchise fee agreement. Comcast reported whole house maintenance revenue which represents a franchise fee **overpayment of \$20,770** to the Metropolitan Nashville Government.

The total franchise fee overpayment from Comcast to the Metropolitan Nashville government is **\$42,197**. (See Observation B.)

Census data and market research showed the estimated number of subscribers compared to those provided by Comcast is within reason.

The franchise agreement requires that the statement accompanying the franchise fee payment include the information listed in Tennessee Codes Annotated §7-59-306(c)(1)(A)-(D). The required

information includes the revenue attributable to subscribers versus nonsubscribers and the total number of subscribers within the county. That information is currently not being provided on the franchise fee statement. (See Observation A.)

## **AUDIT OBSERVATIONS**

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### ***Observation A: Franchise Fee Statements lacking Subscriber Information***

Required subscriber information is not included on the statements sent with the franchise fee payments. Section 6.1.2 of the Cable Television Franchise Agreement between the Metropolitan Nashville Government and Comcast, requires that a statement must be accompanied by the quarterly franchise fee payment and the statement must include the information listed in Tennessee Codes Annotated §7-59-306(c)(1)(A)-(D). The information required by the Tennessee Codes Annotated includes the gross revenue attributable to the municipality or unincorporated areas of the county, the franchise fee rate, the amount of the franchise fee payment due, and the designation of revenue attributable to subscribers versus nonsubscribers and the total number of subscribers in the relevant county or municipality.

#### *Criteria:*

- *Cable Television Franchise Agreement Between The Metropolitan Government of Nashville and Davidson County, Tennessee and Comcast of Nashville I, LLC*
- *Tennessee Codes Annotated Section 7-59-306(c)(1)(D)*
- *COSO, Information and Communication-Principle 13-The organization obtains or generates and uses relevant, quality information to support the functioning of internal control.*

#### *Recommendation for management of Information Technology Services to:*

Request that Comcast modifies the franchise fee statement to include the revenue attributable to subscribers versus nonsubscribers and the total number of subscribers in Davidson County.

### ***Observation B: Franchise Fee Overpayment***

The exclusion of bad debt expense and the inclusion of whole house maintenance revenue caused a franchise fee overpayment of \$42,197 to the Metropolitan Nashville Government from Comcast for the period between April 2013 and March 2014.

#### *Criteria:*

- *Cable Television Franchise Agreement Between The Metropolitan Government of Nashville and Davidson County, Tennessee and Comcast of Nashville I, LLC, Section 6.2.2*
- *COSO, Information and Communication-Principle 15-The organization communicates with external parties regarding matters affecting the functioning of internal control.*

#### *Recommendation for management of Information Technology Services to:*

Work together with Comcast to determine a final settled amount for the refund or credit due for the overpayment of franchise fees.

## **GOVERNMENT AUDITING STANDARDS COMPLIANCE**

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We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

## **METHODOLOGY**

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To accomplish our audit objectives, we performed the following steps:

- Reviewed and analyzed documentation to determine the accuracy and completeness of revenues.
- Reviewed and analyzed documentation for compliance with the Tennessee Code Annotated, Metropolitan Nashville Code of Laws, and other applicable laws, regulations, and policies.
- Considered risk of fraud, waste, and abuse.
- Considered information technology risks.

The primary source of information to reach our conclusions is produced by Comcast's billing system. The reliability of the data provided by Comcast's billing system could not be determined. We determined that it would not be cost effective to perform audit testing of Comcast's billing system, and the franchise agreement does not require Comcast to provide the Metropolitan Government a Service Organizations Control Report.

## **AUDIT TEAM**

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Seth Hatfield, CPA, CIA, In Charge Auditor

Mark Swann, CPA, CIA, CISA, ACDA, Metropolitan Auditor



Metropolitan Government of Nashville and Davidson County  
Megan Barry, Mayor

Information Technology Services Department  
Keith Durbin, Chief Information Officer

May 23, 2016

Mr. Mark Swann, Metropolitan Auditor  
Office of Internal Audit  
222 3<sup>rd</sup> Avenue North, Suite 401  
Nashville, TN 37201

**RE: Audit of Comcast Franchise Fee**

Dear Mr. Swann:

This letter acknowledges receipt of the Comcast Cable Television Franchise Fee Audit Report and Recommendations. The recommendations will be addressed with Comcast. We are confident the recommendations will help both Comcast and the Metropolitan Government continue in a positive relationship of delivering public, educational, arts and government television programming for the citizens of Nashville.

We appreciate the work that you and Seth Hatfield did on this audit. On behalf of the PEG stations, I thank you and your staff for performing the audit in such a professional and timely manner.

Sincerely,

A handwritten signature in black ink, appearing to read "Keith Durbin".

Keith Durbin  
CIO/Director, Information Technology Services

## APPENDIX A – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

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We believe that operational management is in a unique position to best understand their operations and may be able to identify more innovative and effective approaches, and we encourage them to do so when providing their response to our recommendations.

Recommendation	Concurrence and Corrective Action Plan	Proposed Completion Date
<i>Recommendation for management of Information Technology Services to:</i>		
<b>A.1</b> Request that Comcast modifies the franchise fee statement to include revenue attributable to subscribers versus nonsubscribers and the total number of subscribers within Davidson County.	Agree	6/30/2016
<b>B.1</b> Work together with Comcast to determine a final settled amount for the refund or credit due for the overpayment of franchise fees.	Agree	6/30/2016